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The CRESSI project explores the economic underpinnings of social innovation with a particular focus on how policy and practice can enhance the lives of the most marginalized and disempowered citizens in society.

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Social Innovation Policy in Hungary

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Creating Economic Space for Social Innovation

Social Innovation Policy in Hungary[1]

Introduction

Despite limited institutional support or recognition of the concept, there is growing interest in social innovation in Hungary. A major factor impelling interest in its application and potential is the large inflow of European funds, much of which is tied to the promotion of social innovation (Kengyel, 2013). For instance, Hungary was the recipient of 22 billion euros in development aid from the European Union between 2007 and 2013, and the social portion of this aid was explicitly devoted to 'innovative concepts that enhance, through various financial arrangements, the participation of private capital in the implementation of development activities and in the long-term operation of new institutions' (National Development Agency, 2007b: 52). Moreover, international support organisations, notably NESsT, fund social enterprises and organisations engaged in social innovation in Hungary. Nevertheless, there is a considerable policy lag within Hungarian public bodies. Social innovation is rarely referred to domestically and there is a lack of legal forms that specifically cater to the actors and organisations engaged in social innovation. There is little shared understanding of social innovation, or even social enterprise. Traditional cooperatives without a social mission, for-profit companies with a strong corporate social responsibility record and organisations entirely reliant on public sector grants have all been known to make use of the social enterprise label in Hungary (Vincze et al., 2014: 1). With this in mind, the content of this country report has to be much broader than its title suggests. Social innovation, the social economy, social enterprise and social services all tend to be closely interrelated in Hungarian policy treatment. However, given the lack of policy attention and emphasis on social innovation in Hungary, these features are taken together in this report to represent the Hungarian policy agenda for social innovation in its, albeit limited, entirety.

Policy attention and interest in the concept of social innovation has tended to focus on three areas in Hungary. Firstly, alternative models of production and consumption to support organisations engaged in work integration activities and the social inclusion of disadvantaged groups. Secondly, enhancing the sustainability of the social economy sector by securing innovative and non-state financing and revenues in the social economy. Finally, adopting a policy framework that coheres with EU policy and investment fund strategies pertaining to social business and innovation. Other aspects of social innovation, such as new and more participatory forms of social service delivery or the encouragement of grassroots social action, have received relatively less attention.

Policy and regulatory frameworks

In Hungary, there are no government agencies or departments explicitly dedicated to fostering social innovation or supporting the social economy (Ruskai and Mike, 2012). As is the case across many EU member states, there is also no agreed definition of social innovation. Whilst public programmes and policy initiatives supporting social innovation do employ specific criteria for identifying appropriate organisations and beneficiaries, these criteria are rarely based on a Hungarian conception of the activities and organisations believed to contribute towards the social economy. The Hungarian classification of organisations engaged in social innovation tends to be derived from definitions and communications outlined by the European

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Commission through EU policy frameworks such as the Social Business Initiative. Government departments and agencies involved in the co-financing of EU operational programmes also tend to import EC definitions of organisational forms and activities in order to secure funds. The adoption of the EC's approach means the activities supported through domestic policy instruments and funding tend to be restricted to those which the European Commission deem to be institutionally and strategically valuable (cf. Lendvai and Stubbs, 2015). Inevitably, this means that particular dimensions of social innovation in Hungary have been advanced at the expense of others. For example, to secure certain structural and investment funds, eligible organisations have had to demonstrate participatory methods are used in the design and delivery of services which excludes many organisations contributing towards social innovation (Vincze et al., 2014).

Without a common domestic interpretation, there is some difficulty in establishing the size and scope of the social economy in Hungary. Inferring the size of the social economy from official statistics is fraught with difficulty. Official figures from 2013 show that there are 65 thousand civil and non-profit organisations in Hungary, a slight decline from 2012 (Hungarian Central Statistical Office., 2014). Employment within the sector has decreased more significantly, falling 10 per cent from 2012 to 2013 (Hungarian Central Statistical Office., 2014). Within this sector, the category of social economy or socially innovative organisations is much smaller, but hard to pin down with much accuracy. It has been suggested that an upper limit for the number of the non-profit social economic organisations can be found by narrowing the focus to organisations that have a primary focus on 'economic development,' 'social care' and 'education' (Ruskai and Mike, 2012). As of 2013, there are 16 thousand such organisations in Hungary (Hungarian Central Statistical Office., 2014).

There are a number of features of the Hungarian social and political economy that make the economic space within which social innovation operates particularly distinct. The existence of extremely deprived regions and localities has meant that there is a very large reliance on municipal governments in social provision. Consequently, these entities have a long history of organising social employment, including non-profit enterprises and public works programmes (Ruskai and Mike, 2012). In addition, there is a history, which many of the social cooperatives draw on, of 'social land programmes' (Ruskai and Mike, 2012). The social land programmes aim to help disadvantaged families to increase their agricultural production through access to various inputs and services. While agricultural social cooperatives are still marginal, they can be considered prototypical rural social businesses (Ruskai and Mike, 2012). The legacy of the Hungarian centrally planned economy has meant that market-based or entrepreneurial solutions to meet social need are perhaps less contested than in other welfare regimes (Aczel et al., 2014). However, the third sector activities and organisations that have emerged from democratic transition were and still are heavily reliant on public grants and funding:

> For non-profit organisations including associations, foundations as well as non-profit companies, external funding accounted for 57 per cent of the revenues in 2011, 42 per cent of which was paid from public money (Vincze et al., 2014: 13).

A significant portion of the social economy in Hungary appears to rely on, especially financial, support from central or local government. The organisations constituting the social economy in Hungary have been 'either established by the local government or the state, or they are significantly supported by the state' (Horváth, 2010: 13) and as a result their activities are institutionally contingent. That is, the concept and potential of social innovation is only accommodated and supported in a way that is financially and or strategically valued by Hungarian public bodies and activities. This top-down centralised approach is seen as a real obstacle to these organisations innovating and this in part explains the reluctance to impose definitive categories and classifications on the social innovation sector and economy when it is so underdeveloped relative to other countries. Increasingly, particularly due to the influence of the European Commission, the Hungarian government has sought to increase the (financial) autonomy and independence of the social economy by exploring and encouraging alternative forms of revenue generation.

For the planning cycle running from 2007-2013, 'innovation' and 'sustainable development' were some of the principle themes of the New Hungarian Development Plan (Horváth, 2010). In 2011, the government launched the New Széchenyi Plan - an economic development policy programme designed to boost employment opportunities. As part of this, social enterprises were mentioned as a vehicle for entrepreneurial activities but little detailed specification of their role or significance was given. The development programme sought to facilitate the employment of local and disadvantaged jobseekers, partly through the use of public funding but also through entrepreneurial activities generating an income independently of the state. As part of this, the New Széchenyi Plan envisioned that certain social services could use socially innovative forms of finance, including through private investors as well as grants from municipal resources (Ruskai and Mike, 2012). In reality, this represents a cursory recognition of the role social cooperatives can play in work integration activities for the long-term unemployed. Since the advent of the European Social Fund, some financing has been directed towards the capacity-building of non-profit organisations by strengthening the marketability of their goods and services, with a view to them becoming less reliant on state financing (Ruskai and Mike, 2012).

For organisations such as these and others engaged in the social economy, there are a number of public procurement measures in place (Ruskai and Mike, 2012). These measures enable public sector agencies to favour the goods and services provided by organisations working in the social economy over those working in the for-profit sector. However, the capacity to enact preferential procurement in Hungary is somewhat hindered by EU competition policy.

Favourable tax regulations have, in certain instances, reduced the operational costs of organisations engaged in social innovation and boosted the availability of finance available to others. Some activities and organisations are exempt from, or able to pay a reduced rate of, value added tax. This includes activities where the organisation does 'not systematically aim to make a profit and they used the profit to maintain and extend their public interest activities' (CoF., 2014: 9). Services and activities exempt include personal and social care services, education and healthcare. Organisations engaged in entrepreneurial activities that contribute towards the public benefit or mission-related activities of certain organisations are exempt from corporate tax (CoF., 2014).

Non-profit organisations, including non-profit business companies, professional or sports associations can apply for the status of public or prominently public benefit organisation. An organisation can be qualified as 'prominently public benefit organisation' if it signs a contract to take over a certain service provision from the state (including services to be provided by local municipalities). Corporate and individual donations to particular public benefit status non-profit organisations are tax deductible. The tax base can be reduced to a larger extent when donations are offered to prominently public benefit organisations; especially to cultural organisations and sports associations. As a result, companies that focus on tax optimisation donate to such organisations. This rule, therefore, limits the fundraising possibilities of other non-profit organisations, among them the ones involved social innovations.

Of particular significance for increasing the availability of funds to organisations engaged in social innovation is the one per cent tax designation. Since 1996, taxpayers living in Hungary have been able to designate 1 per cent of their personal income tax to qualified non-governmental organisations. As a social innovation in itself, this costly commitment from the Hungarian government bolsters the availability of funds and finance in the social economy. Bullain (2006) explains that this development is supported by a number of rationales. Firstly, it introduces what some have termed 'taxation self-determination' (Fazekas, 2000) into the political economy with individuals able to form and enact their own decisions about where they feel 'public' funds should be directed. Secondly, it supports civil society development by raising funds, awareness and the skillset of organisations engaged in the social economy. Thirdly, it encourages service diversification in a way that supports activities of public and social value in a 'decentralised and depoliticised way' (Bullain, 2006: 9). This mechanism is of principal benefit to more conventional charitable organisations that play a central role in compensating for the lack of public service coverage in domains such as alleviating child poverty and hunger and providing support services to disabled and marginalised groups.

Organisations engaged in social innovation in Hungary

As previously stated, there is a lack of legal recognition of the activities and organisations contributing towards social innovation in Hungary. Recognition is often bound up with the concept of social services and social work. It therefore becomes particularly difficult to disentangle, both administratively and financially, the social economy from the public sector. In addition it also become difficult to broaden and diversify the sphere of activity within which social economy organisations operate.

In Hungary, the most common legal status for a social enterprise is a social cooperative. In 2006 a law on cooperatives was passed, which legally defined the structure and function of social cooperatives. Péter Kiss, the minister that proposed the law, declared in the debate that 'the bill considers cooperatives an organisational framework that is able to combine cultural, social and community organiser functions' (Horváth, 2010: 24). This suggests that an aim of the social cooperative is to stimulate grassroots community involvement and blended value operations. Significantly, the legal definition of a Hungarian social cooperative specifies that the aim of this organisational type is to create effective and inclusive workplaces for disadvantaged populations and the unemployed. Needless to say, this somewhat limits the activities of legally recognised actors engaged in social innovation. The growth of social cooperatives in Hungary, evidenced for example by the establishment of the National Association of Social Cooperatives in 2010, makes these the main type of organisations in the social economy in Hungary. Arguably, the development of social cooperatives has been one of the most significant developments for social innovation in Hungary.

Other organisations include traditional cooperatives and non-governmental organisations. Non-governmental organisations are able to undertake entrepreneurial activities provided that these satisfy 'public benefit' status (Vincze et al., 2014). There are also private non-profit organisations that are allowed to carry out business and revenue making activities in a complementary manner. However, the amount of revenue and profit distribution from economic activity is restricted in law (Etchart et al., 2014: 10).

Social innovation funding and finance

The SELUSI survey on Hungarian Social Enterprises found that, in the 12 months ending in 2010, sales and fees were the most important source of liquidity, providing an average of 38 per cent of revenue. This funding source was closely followed by grant financing at 36 per cent (SELUSI., 2010: 12). Other forms of financing were more limited. Private equity was only a small source of financing, an average of 4.2 per cent, but this did exceed the amount received through private donations (3 per cent), loans (2 per cent) and microfinance (0.5 per cent) (SELUSI., 2010: 12). Other sources of funding generated an average of 20 per cent of revenues. Interestingly, the view of the relationship between revenue-generating and social-impact activities seems to vary between social enterprises. The same study found that 45 per cent of Hungarian social enterprises felt their revenue generating activities in themselves had no or little positive social impact. The other 55 per cent of firms responded that their revenue seeking activities had at least some social impact in their own right (Horváth, 2010). This suggests diversity in the approach to the importance of revenue generating within the social economy, with some organisations seeing it in contradiction to social impact, but other firms seeing them as complementary.

The Hungarian public sector has delivered a range of public grant schemes that, in some measure, contribute towards aspects of social innovation. An enduring focus on tackling ethnic discrimination and work integration activities means the majority of the funds available tend to focus on ‘local employment initiatives and innovative employment services’ (Ruskai and Mike, 2012: 4). The most substantial programmes have been co-financed through EU contributions.

The most significant sources of social innovation funding and finance in Hungary have been the European Structural Funds (via the operational programmes attendant to these). The Social Infrastructure Operational Programme and the Social Renewal Operational Programme have been particularly important to the development of the social economy in Hungary. These programmes were part of the New Hungary Development Plan, a 7-year plan (2007-2013) agreed between the European Union and the Hungarian government, which aimed to close the development, economic and regional disparities between Hungary and the rest of the European Union (National Development Agency, 2007a; National Development Agency, 2007b). The Social Infrastructure Operational Programme was allocated 2.3 billion Euros (85 per cent of this from the European Regional Development Fund) to develop education, healthcare, and infrastructure supporting labour market participation and social inclusion. The Social Renewal Operational Programme relied on resources from the European Social Fund and largely focused on developing measures targeting the supply side of the labour market, such as developing human resources and reform of the institutional systems of human services (National Development Agency, 2007b: 47).

Both operational programmes had an explicit goal to improve service quality without increasing the burden on the central budget. Preference was given to innovative approaches that leveraged private sector investment. The Social Renewal Operational Programme funded social cooperatives, focusing on those located in disadvantaged areas and contributed towards the training of those engaged in the social economy. Additional resources were used to raise the profile of social cooperatives, with the development of a methodological guide and the organisation of a promotional campaign (Ruskai and Mike, 2012: 5). Invariably, this mass injection of public funding had a 'major impact on the development of the market: a large number of social cooperatives have been established throughout the country' (Vincze et al., 2014: 4). For the planning period running from 2014 to 2020, the Human Resources Development Operational Programme and the Economic Development and Innovation Operational Programme will continue to transform the social innovation eco-system in Hungary. These two programmes alone will provide over 11 billion euros to a range of activities. It remains to be seen what substantive impact this will have but it is anticipated that social economy organisations will be play a pivotal role.

There are very few, if any, state mandated measures in place to encourage social investment and increase the availability of funds for social innovation. There is some private funding for social enterprises within Hungary. International banks (Citibank, Raiffeisen, and Erste), private equity organisations (Hungarian Private Equity and Venture Capital Association), and private funds (EEA/Norway NGO Fund) support a small number of social economy projects in Hungary (Etchart et al., 2014).

The most important player in the social investment market in Hungary is NESst – an international charity working to support social enterprises. Effectively a social investment finance intermediary, NESst provides a range of capital investment, loan and guarantee products as well as grants to actors in the Hungarian social economy. The organisation prioritises support for organisations that develop innovative solutions to social problems and have a strategy for meeting social objectives whilst improving their financial sustainability through selling products and services. This represents a particularly explicit commitment to entrepreneurial activities with a social purpose. NESst also provides investment readiness support, capacity building services, consultancy, training and networking opportunities.

Despite the activities of NESst, private sector investment remains a small source of revenue for organisations engaged in social innovation. Horváth (2010) argues that there is a lack of social finance to support the social economy and that Hungarian community enterprises are weakened by their continuing dependence on state and EU funds. However, the concept of social investment is 'not yet well understood by possible suppliers of funding: large companies, many commercial banks, even by policymakers' (Vincze et al., 2014: 5).

Training, networks and support

With the exception of social cooperatives, there is a lack of state support to social entrepreneurship. Non-profit social enterprises are, because of their legal status, excluded from many of the economic development tenders designed for small to medium enterprises (Etchart et al., 2014: 12). There are, however, several umbrella organisations that provide support to organisations engaged in social innovation, including financing, training and networking events. Two prominent examples of this are NESsT and the National Employment Non-profit Ltd. (Országos Foglalkoztatási Közhasznú Nonprofit Kft.). Example activities that they engage in include free workshops and social enterprise event days (Etchart et al., 2014: 9). In addition, the Corvinus University in Budapest has started a one-semester social entrepreneur course, which includes traineeships in social enterprises (Etchart et al., 2014: 9).

A number of private initiatives have been launched to raise the profile of social innovation in

Hungary. For example, the *Competition of Social Enterprises* run by NESst in collaboration with Citibank offers a prize of $10,000 for social enterprises with the best business plan. UniCredit also runs a *Social Responsibility Competition on 'Social Innovation'* to recognise and reward organisations 'supporting innovative initiatives addressing the economic vulnerability of disadvantaged groups by helping them establish economic self-sufficiency' (Vincze et al., 2014: 4). These sorts of competitions serve as a platform for actors engaged in social innovation, not only to scale their projects, but also learn from and connect with other activities and initiatives.

Conclusion

A recent survey of Hungarian social enterprises asked what policy changes social entrepreneurs in Hungary would most welcome. A range of measures were identified: the most popular recommendation was a change in legislation regulating the social economy (15 per cent), 14 per cent said regional and local development and 10 per cent said less bureaucracy and more financial support. Beyond the desire for greater funds and flexibility, these preferences highlight 'an attitude of social entrepreneurs in Hungary towards more transparent changes in legislation and law enforcement' (SELUSI., 2010: 23). This suggests that there is a continued mismatch between policy provisions for and the needs of social innovators in Hungary.

This is further evidenced by the CIRIEC report on the social economy in the European Union. In 2006, Hungarian state authorities, social enterprises and academia all had low (scant or non-existent) acceptance of the concept of 'social economy' (Monzón and Chaves, 2012). In 2012, this was still the case for the state and academia, however, social enterprises now had a medium-level of awareness and acceptance of the concept (Monzón and Chaves, 2012). This suggests changing attitudes in the third sector. While the profile of social enterprise and social innovation might be growing relatively fast in the third sector, this does not appear to be the case in academia and public policy to the same extent. Although more recent policy programmes do focus more on the potential of the social economy and social innovation, much of this appears to be the result of EU operational programmes and it remains to be seen whether these concepts will be picked up more broadly and independently in Hungarian social policy.

A slow but growing interest in social innovation and, to some extent, social enterprise has not developed organically out of the needs and activities of Hungarian policymakers or actors engaged in social innovation. Rather, interest in the potential of social innovation has developed exogenously. Contrary to the approaches and developments that have taken place in many EU member states, the Hungarian government has imported the EU's social innovation policy framework and agenda. Subscription to the definition of social enterprise and social innovation advanced by the European Commission means the subsequent development of social innovation in Hungary is likely to reflect the interests and priorities of the European Commission.

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